

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-08 TRSE-00 STR-05 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 /092 W

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R 271322Z DEC 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 2945

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E.O. 11652: N/A

TAGS: ECON, SP

SUBJECT: DISCUSSION OF ECONOMIC PLAN WITH UNDER
SECRETARY OF ECONOMY

1. OVER LUNCH WITH THE DCM ON DECEMBER 21, UNDER SECRETARY OF ECONOMY MANUEL JESUS LAGARES EXPRESSED GENERAL SATISFACTION WITH THE PROGRESS OF THE ECONOMIC PROGRAM AND THE MAJOR INDICES OF THE SPANISH ECONOMY DURING 1977, NOTING SPECIFICALLY A NOTABLE IMPROVEMENT OF TRADE ACCOUNT BALANCE, A SUBSTANTIAL INCREASE IN FOREIGN EXCHANGE RESERVES AND A RECENT DECLINE IN THE RATE OF INFLATION WHICH IS NOW EXPECTED TO TOTAL 27 OR 28 PERCENT FOR 1977.

2. HE WAS OPTIMISTIC THAT THESE FAVORABLE TRENDS WOULD CONTINUE, EVEN THOUGH PRESSURES FROM INTEREST GROUPS TO ERODE THE PROGRAM ARE STRONG. THE MONCLOA PACT COMMITTING THE MAJOR POLITICAL PARTIES TO SUPPORT HAD BEEN MOST HELPFUL. NEVERTHELESS, GOVERNMENT OFFICIALS RESPONSIBLE FOR IMPLEMENTATION OF THE PROGRAM HAD TO RESIST DAILY PRESSURES FOR RELAXATION.

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3. ON THE CRITICAL FACTOR OF WAGE NEGOTIATIONS, LAGARES EXPECTS SATISFACTORY RESULTS CITING THE FACT THAT SATISFACTORY SETTLEMENTS WERE ALREADY BEING REACHED IN MAJOR PUBLIC CORPORATIONS AND THAT THIS WAS EXPECTED TO PREVAIL THROUGHOUT THE ENTIRE PUBLIC SECTOR. WITH THIS EXAMPLE, AND THE TWIN DISCIPLINES OF MONETARY TIGHTNESS AND LABOR CONCERN OVER INCREASED UNEMPLOYMENT,

HE EXPECTS THE PRIVATE SECTOR TO BE ABLE TO ADHERE GENERALLY TO THE GUIDELINES, NOTING THAT THE GUIDELINES ARE ESTABLISHED ON A PER COMPANY BASIS SO THAT IF NECESSARY, HIGHER INCREASES FOR LOWER LEVEL WORKERS COULD BE OFFSET BY LESSER INCREASES FOR HIGHER LEVEL WORKERS AND MANAGEMENT AND PROFESSIONALS, WITH THE OVERALL INCREASE REMAINING WITHIN THE GUIDELINES. HE SAID THAT SETTLEMENTS WITHIN A PERCENTAGE POINT OR TWO OF THE GUIDELINE WOULD BE CONSIDERED A GREAT SUCCESS BY GOVERNMENT, SINCE A LITTLE LEEWAY REGARDING THE EFFECT ON THE TOTAL PROGRAM HAD BEEN PROVIDED IN SETTING THE WAGE CEILING 22 PERCENT FOR TOTAL INCREASE. SEPARATELY UGT CHIEF NICOLAS REDONDO ALSO EXPRESSED CONFIDENCE TO THE DCM THAT THE WAGE CEILING WOULD BE MET OR EVEN IMPROVED ON. HE SAID THE WORKERS UNDERSTOOD THE SERIOUS PROBLEMS OF MANY FIRMS AND THAT THEREFORE IN SOME CASES WAGE SETTLEMENTS WOULD BE CONSIDERABLY LESS THAN THE 22 PERCENT CEILING. THUS THE OVERALL AVERAGE MIGHT ALSO BE UNDER 22 PERCENT.

4. WITH REGARD TO MONEY SUPPLY. LAGARES CONFIRMED WHAT WE HAD PREVIOUSLY HEARD TO THE EFFECT THAT THE MONEY SUPPLY HAD EXPANDED AT LESS THAN THE TARGETED RATE IN OCTOBER AND NOVEMBER WITH THE RESULT THAT LEEWAY HAD BEEN LEFT FOR SPECIAL DECEMBER NEEDS. NEVERTHELESS, A NUMBER OF FIRMS WOULD BE IN TROUBLE IN COMING MONTHS. LIMITED OFFICIAL USE

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5. HE SAW UNEMPLOYMENT AS A DIFFICULT LONG-TERM PROBLEM IN SPAIN, TO BE MET IN PART BY A PROJECTED LARGER PUBLIC SECTOR WITH GREATER EMPHASIS ON IMPROVED AARVICES. IN THIS CONNECTION, HE NOTED THAT IMPROVED TAX COLLECTIONS WERE EXPECTED TO CONTRIBUTE A 10 PERCENT INCREASE IN REVENUES IN 1978.

6. LAGARES SAID THAT AN IMPORTANT AREA OF UNCERTAINTY CONCERNED THE VIEW OF PRIVATE SECTOR TOWARD NEW INVESTMENT, NOTING THAT FIRMS AND ALSO THE BANKS HAD OVER-REACTED TO THE PLAN AND THAT AN EDUCATION PROCESS WAS REQUIRED.

7. THE UNDER SECRETARY STRESSED THAT, UNTIL THE DOMESTIC ECONOMY BECAME MORE BUOYANT, THE EXTERNAL SECTOR WAS VERY IMPORTANT TO THE SATISFACTORY EVOLVEMENT OF THE ECONOMIC SCENE AND THEREFORE TO THE POLITICAL SCENE. HE EXPRESSED HOPE THAT THE USG APPRECIATED THIS POINT AND WOULD BE HELPFUL AND FORTHCOMING REGARDING SPANISH EXPORTS TO THE U.S. I NOTED THAT THE JANUARY 16 JOINT ECONOMIC COMMITTEE MEETING WOULD PROVIDE AN EXCELLENT FORUM TO DISCUSS THIS SUBJECT. IT WAS ALSO NOTED THAT A FORTH-

COMING SPANISH APPROACH ON THE SOYBEAN OIL QUESTION WOULD BE USEFUL.

8. REGARDING THE IMF, LAGARES NOTED THE RECENT VISIT BY AN IMF STAFF TEAM WHICH HAD FOUND THE PLAN GENERALLY GOOD, ALTHOUGH THERE WAS SOME DIFFERENCES AS TO DEGREE IN SOME AREAS. HE CONFIRMED WHAT WE HAD BEEN TOLD BEFORE TO THE EFFECT THAT ALTHOUGH AN IMF DRAWING WAS NOT NEEDED FROM A FOREIGN EXCHANGE POINT OF VIEW, AN IMF STANDBY ARRANGEMENT WOULD PROBABLY BE ENTERED INTO IN ORDER TO HAVE THE BACKING OF THAT ARRANGEMENT IN ASSURING IMPLEMENTATION OF THE PROGRAM AND ALSO IN

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ORDER TO GIVE THE FOREIGN FINANCIAL COMMUNITY MORE CONFIDENCE IN THE SPANISH SITUATION.

9. ON VICE PRESIDENT FOR ECONOMIC AFFAIRS FUENTES STATUS, LAGARES SAID THAT DESPITE FUENTES GENERAL DISTASTE FOR HIS JOB, HE EXPECTED HIM TO STAY ON TO SEE THE PROGRAM THROUGH. HE AGREED THAT THIS WAS VERY IMPORTANT FOR THE SUCCESS OF THE PROGRAM IN VIEW OF FUENTES' PRESTIGE.

COMMENT: LAGARES COMMENTS CONFIRM OUR ANALYSIS THAT THE RATIONALIZATION OF THE SPANISH ECONOMY AND THE ADDRESS OF SHORT-TERM ECONOMIC PROBLEMS ARE, THUS FAR, PROCEEDING SATISFACTORILY. DIFFICULT PROBLEMS REMAIN, BUT, AT THIS JUNCTURE, SPAIN IS HANDLING ITS ECONOMIC AFFAIRS QUITE WELL. EATON

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